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S. Hrg. 103–386

NAFTA JOB CLAIMS: TRUTH IN STATISTICS?

HEARING

BEFORE THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

NOVEMBER 10, 1993

Printed for the use of the Committee on Governmental Affairs

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WITNESSES

Wednesday, November 10, 1993

Paul A. London, Acting Undersecretary of Commerce for Economic Affairs 7

NAFTA JOB CLAIMS: TRUTH IN STATISTICS?

WEDNESDAY, NOVEMBER 10, 1993

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 2:08 p.m., in room SD-342, Dirksen Senate Office Building, Hon. John Glenn, Chairman of the Committee, presiding.

Present: Senators Glenn, Levin and Dorgan.

OPENING STATEMENT OF SENATOR GLENN

Chairman GLENN. The Committee will be in order. Good afternoon. Today, the Senate Committee on Governmental Affairs meets to examine the assumptions, the facts, and the methodologies used by the Clinton Administration in determining NAFTA's impact on U.S. jobs.

The Administration has claimed that 200,000 U.S. jobs will be created as a result of NAFTA. Studies by other groups claim that this figure could exceed 2 million. But even those who claim all these varying degrees of increased employment, no matter at what level, leave when as an unanswered question; 5 years, 10 years, 20 years, or which generation is what I have been asked back home, and we don't have a good estimate on that.

On the negative side of the ledger, several studies have estimated that NAFTA will cause a loss of anywhere from 34,000 to 900,000 U.S. jobs. Most economists will tell you that the science, or rather the art of economics is an imperfect study of an imperfect world, and I guess I would have to agree with that.

So I believe we would be well served to view the predictions of any of these NAFTA studies with a jaundiced eye and a grain of salt. Unfortunately, the Administration has tossed a figurative grain of salt over its shoulder and to the wind and has embraced the 200,000 jobs figure as the gospel truth without taking into account a number of important factors.

First, there is no assessment as to whether the pact will cause a shift in investment from the U.S. to Mexico and how that might impact U.S. employment. Nor, as Senator Levin will point out, do the Administration's projections factor in U.S. jobs that could be displaced through increased Mexican imports.

The Joint Economic Committee recently completed a report analyzing the 16 major economic studies on NAFTA and the report concludes that, and I quote, "The predictions of the studies are widely contradictory and the utility of the studies in reaching pol-

icy conclusions on NAFTA is extremely limited." That is what we want to investigate today.

Let me say that out of our own office, my Senate office, not the Committee office, we asked the Congressional Research Service to do a study of the major studies of NAFTA and the impact that it might have, because at home in Ohio we had one person who is now a professor at Ohio University, and at one time was Chairman of the International Trade Commission who predicted that in the first 2 years of NAFTA we would probably lose up to 56,000 jobs in Ohio.

That was not based on a solid econometric computer run or anything scientific like that. It was sort of a general estimate, and so it could be off by quite a factor, as he readily acknowledges. But we went to CRS and asked for their study of these reports and they came back and said, well, yes, they vary quite widely, but at the same time the one thing that all of them had ignored was factoring in a changing investment pattern where investment would probably be shifted from investment in this country to investment in Mexico. One other study, then, was done out at Berkeley in California—my understanding of it indicated that once an investment shift was factored in, there could be as many as 500,000 jobs lost in the first 2 years for the whole U.S.

I only go on this way to show that the figures are literally all over the lot, and are projected by people who are trying to do their best, but when they use slightly different assumptions, that changes the overall impact tremendously. So we really don't know quite what to expect. We would like to be able to settle down on some figures concerning job projections and then know what to tell our people back home, as everybody is concerned about the effect on their home State.

Senator Levin has spoken extensively about this on the Senate floor and was the spark plug for today's hearing. I don't want to unnecessarily castigate the Administration or anyone else for their economic estimates and projections. On the other hand, some of the figures that we have from reputable studies contradict each other. They are all over the lot, and the purpose of this afternoon's hearing is to try to make some sense out of them.

Dr. Paul London, who is Acting Undersecretary and Deputy Undersecretary of Commerce for Economic Affairs, and very much involved in the whole NAFTA question—we will get to his testimony shortly after Senator Levin makes his opening statement.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Thank you, Mr. Chairman, and thank you for convening this hearing. Over and over again, we hear the Administration tell us that NAFTA will create 200,000 new U.S. jobs by 1995. However, that figure simply is a distortion and is not credible. The equation and the numbers used by the Administration in estimating job growth as a result of NAFTA don't add up.

In essence, NAFTA math, as I call it, uses three principles that would make most elementary school teachers wince. First, it uses only half the equation by only counting jobs claimed to be created by increased exports, while ignoring the jobs displaced by increased imports from Mexico.

Second, it confuses addition with subtraction by adding as job-creating even those exports that are exports of parts and components that were once assembled here in the United States. Exports are always counted as job creators, whereas, in fact, some represent job losses.

Third, NAFTA math hangs on to a single specific job creation number even though NAFTA proponents are inconsistent about how that number is reached. In fact, two different proponents in the Administration use two different sets of numbers to get to that same conclusion.

Now, the first principle—using only half the equation—is exemplified by the Administration's claim that NAFTA will create 200,000 additional jobs by 1995. And this is not a minor factor in the NAFTA debate; this is one of the central selling points to the American people—200,000 new jobs by 1995. We hear it over and over and over again, and it is a gross distortion.

First, it looks at only half the story. In fact, if you use the whole picture and look at both exports and imports, jobs which will be lost because of the job displacement effect of increased imports from Mexico should be deducted from any jobs claimed to be created by increased exports. What the Administration is doing is like looking at half of a ledger, the revenues, while ignoring the other half of the ledger, the expenses, and then claiming great profits.

The second principle—confusing addition with subtraction—is also part of NAFTA math. That is demonstrated in the Administration's claim that all exports are job creators when, in fact, some actually represent a loss of jobs. For example, take an assembly plant in Michigan or Ohio or anywhere else in America employing, say, 1,000 workers that is supplied by various U.S. parts suppliers. If that American assembly plant moves to Mexico and continues to use the same parts and components from the United States, 1,000 assembly jobs would have been lost in the United States.

But according to the Administration, exports have just gone up because now some parts and components are crossing the border to Mexico to that assembly plant which just moved there from the United States. And since exports have gone up, automatically—that is the equation—jobs are created. The Administration wrongly assumes jobs are created when those particular exports that I have just described in fact reflect lost jobs. Counting those exports as jobs is typical of NAFTA math.

By NAFTA math, if every assembly plant in America picked up and moved to Mexico and still used some U.S. parts, the way the Commerce Department figures things, our exports and job growth would show a huge jump, despite a catastrophic loss of U.S. assembly jobs which would have actually taken place.

The Administration demonstrates the third principle of NAFTA math—inconsistency—when it sticks like glue to the figure of 200,000 NAFTA-created jobs by 1995. We start with President Clinton's statement that every time we sell $1 billion of American products and services overseas, we create about 20,000 jobs. That is the President's statement. Every time we sell $1 billion of American products and services overseas, we create about 20,000 jobs.

Treasury Secretary Bentsen then arrives at the 200,000 new jobs number based on an expected $10 billion increase in U.S. exports

to Mexico in that period. According to the Administration's math, since each $1 billion in exports creates about 20,000 jobs, $10 billion in exports equals about 200,000 jobs.

However, although Secretary Bentsen bases his 200,000 jobs on a claim of $10 billion in increased U.S. exports through 1995, the Administration's Trade Representative's office, when pressed on its methodology, says that the export rise in the same period will be $17 billion, reaching $57 billion in 1995. Although the U.S. Trade Representative says that exports are going to rise by $17 billion by 1995, and although Secretary Bentsen says it is only going to rise by $10 billion through the same year, lo and behold just like magic the Trade Representative says there are going to be 200,000 new jobs created from those exports. Now, how can both of their equations add up to 200,000 if one is using a $10 billion additional export figure and the other is using a $17 billion increase in exports during the same period of time?

By Washington standards, the difference between Secretary Bentsen's $10 billion in increased exports and Trade Representative Mickey Kantor's $17 billion in increased exports may be considered small. But by any other math but NAFTA math, it is a pretty big discrepancy.

So some of the questions that I will keep on asking the Administration are these. Why do you continually promote the 200,000 job gain number? What is the figure for job displacement from imports? Why don't you deduct jobs lost from imports from your claim of jobs gained from exports? How can you include in exports billions of dollars in parts and components that were once assembled here in the United States?

So, Mr. Chairman, NAFTA math doesn't add up. I am delighted that Dr. London has come here today to try to help explain it. We had invited the Trade Representative, Mr. Kantor, to be here and he declined, for one reason or another. I don't know that we even ever got a direct response from him, but in any event he has been hard to pin down to get over here to a hearing, and that is too bad because I think that he should have accepted the Committee's invitation. But I know Dr. London and I am glad that he is here to give us the benefit of his thinking on these questions.

The Administration has just simply got to avoid using distortions in order to sell NAFTA. There is not going to be an agreement on one set of numbers; that is clear. There are going to be 16 or 20 or 30 or 50 assessments from every think tank around, most of whom have axes to grind, but the least we can expect is that the Administration math adds up, and it hasn't.

Thank you, Mr. Chairman.

Prepared Statement of Senator Levin

Over and over and over again we hear the Administration tell us that NAFTA will create 200,000 new U.S. jobs by 1995. However, that figure simply is a distortion and isn't credible. The equation and the numbers used by the Administration in estimating job growth as a result of NAFTA don't add up.

In essence, NAFTA MATH, as I call it, uses three principles that would make most elementary school teachers wince. First, it uses only half the equation by only counting jobs claimed to be created by increased exports while ignoring the jobs displaced by increased *imports* from Mexico. Second, it confuses addition with subtraction by adding as job *creating* even those exports that are exports of parts and components that were once assembled here in the U.S. Exports are always counted as

job creators whereas, in fact, some represent job losses. Third, NAFTA MATH hangs on to a single specific jobs creation number, even though NAFTA proponents are inconsistent about how that number is reached. In fact, they use at least two different sets of numbers to get there.

The first principle—using only half the equation—is exemplified by the Administration's claim that NAFTA will create 200,000 additional U.S. jobs by 1995. And this is not a minor factor in the NAFTA debate; this is one of the central selling points to the American people. That claim is a gross distortion. First, it looks at only half the story. In fact, if you use the *whole* picture and look at both exports *and* imports, jobs which will be *lost* because of the job displacement effect of increased imports from Mexico should be deducted from any jobs claimed to be created by increased exports.

What the Administration is doing is looking at half a ledger—the revenues, which ignores the other half—expenses, and then claiming great profits.

The second principle—confusing addition with subtraction—is demonstrated in the Administration's claim that all exports are job creators when, in fact, some actually represent a loss of jobs.

For example, take an assembly plant in Michigan or Ohio employing 1,000 workers that is supplied by various U.S. parts suppliers. If that American assembly plant moves to Mexico and continues to use the same parts from the United States, 1,000 assembly jobs have been lost in the United States. But, according to the Administration, exports have just gone up and therefore jobs created. The Administration wrongly assumes jobs are created when those exports reflect lost jobs. Counting those exports as jobs is typical of NAFTA MATH.

By NAFTA MATH, if every assembly plant in America picked up and moved to Mexico and still used some U.S. parts suppliers, the way the Commerce Department figures things, our exports and job growth would show a huge jump despite the catastrophic loss of U.S. assembly jobs which would actually have resulted.

The Administration demonstrates the third principle of NAFTA MATH—inconsistency—when it sticks like glue to the figure, 200,000 NAFTA created jobs by 1995. We start with President Clinton's statement that, "every time we sell $1 billion of American products and services overseas, we create about 20,000 jobs." Treasury Secretary Bentsen then arrives at the 200,000 new jobs number based on an expected $10 billion increase in U.S. exports to Mexico in that period. According to the Administration's math, or NAFTA MATH, since each $1 billion in exports creates about 20,000 jobs, $10 billion in exports equals about 200,000 jobs.

However, although Secretary Bentsen bases his 200,000 jobs claim on a $10 billion U.S. *export* rise through 1995, the Administration's Trade Representative's office, when pressed on its methodology, says that exports rise in the same period by *$17* billion, reaching $57 billion in 1995. Yet it also sticks to the 200,000 figure. How can both of their equations add up to 200,000, if one is using $10 billion and the other $17 billion for a claimed rise in exports?

By Washington standards, the difference between Secretary Bentsen's $10 billion and U.S. Trade Representative Mickey Kantor's $17 billion may be considered small. But by any other math but NAFTA MATH, it's a pretty big discrepancy.

So, some of the questions I keep asking the Administration are these. Why do you continually promote the 200,000 job gain number? What is the figure for job displacement from imports? Why don't you deduct jobs lost from imports from your claims of job gains from exports? How can you include in exports billions of dollars in parts and components that were once assembled here in the United States?

NAFTA MATH doesn't add up.

It's time for the Administration to play it straight and stop using distortions and NAFTA MATH to sell this agreement.

Chairman GLENN. Senator Dorgan

OPENING STATEMENT OF SENATOR DORGAN

Senator DORGAN. Mr. Chairman, that was a presentation of almost breathtaking clarity and I agree with every single word of it. Senator Levin has performed, I think, a remarkable service to the Senate with his presentations on NAFTA math on the floor of the Senate and here today.

I think, often, the answer you get depends on the question you ask. Senator Levin is asking exactly the right questions to try to dissect all these claims and find out what exists inside these often

hollow claims. So I thought it was a great presentation and I shall not add to the length of the opening. I am interested in hearing the presentation of Dr. London.

PREPARED STATEMENT OF SENATOR DORGAN

You will be posing many questions to our witness from the Commerce Department today concerning the economic projections for job gains attributable to the North American Free Trade Agreement.

Many of the gleeful projections for job gains are attributed to the Commerce Department, and I, too have had problems with some of these projections and the apparent basis, or lack of basis, for them.

For example, the NAFTA-USA campaign papered this city with little catalogues which contained flashy "coupons" purporting to show the benefits of NAFTA for each state. The coupon for my state, North Dakota, advertised "7,800 jobs" in big red letters. But I found that these numbers, which were attributed to Commerce Department statistics, had nothing to do with NAFTA, and had nothing to do with potential job gains. In addition, I learned the number of jobs displayed on the coupon were extrapolated from some very questionable state-by-state export reports from the Commerce Department. My strong impression is that we need more responsible reporting of data in these areas by the Commerce Department.

So I am pleased to see an examination here today of the recent Commerce Department reports relating to NAFTA, and I appreciate the excellent critical examination that the staff of the Joint Economic Committee did recently on the framework for the economic projections for NAFTA.

For myself, however, I don't wish to get into the details today of this or that economic model used to make NAFTA projections. I think the problem with the economists projections on NAFTA are more basic.

Let me quote from a critique of recent major books that advance the claims of economists on both sides of the NAFTA argument. The critique is written by Lester Thurow, of Massachusetts Institute of Technology, who is prominent among the American family of economists. I hate to agree with any economist but he may be right on this score.

Mr. Thurow says: "when it comes to estimating job losses or gains, the only truthful answer is that no one knows exactly how many jobs will be lost of gained. Neither of the two estimates is derived from detailed micro-economic studies of Mexican and American industries. Both are simply extrapolations drawn from historical analogies based on what once happened elsewhere in the world.

"Mexico is America's largest neighbor, shares thousands of miles of common border, and both the United States and Mexico live in the global economy of the 1990s. Even if detailed micro-economic studies were done it would not be possible to estimate job losses or gains."

Let me take this one step further. Let's say, after hearing Mr. Thurow's views, we were to make the giant leap of faith and say that responsible economists could, with their best scientific tools, make a credible and reasonable projection of jobs loss or gain resulting from a trade agreement with Mexico. If we were to do that, we could expect, at least, that the economists making the projections would have a good, first-hand knowledge of what is in the proposed agreement.

But, that apparently is not the case with economists projecting glorious job growth from NAFTA. The People's Radio Network recently contacted 150 of the 300 economists who wrote to President Clinton, endorsing NAFTA. PRN asked the economists if they had read the agreement. Nineteen claimed they had read it, and eight did not even remember signing the petition. Not surprisingly, the headline on the article about this survey is: "The Best Book I Never Read."

So, of 150 economists endorsing NAFTA—asking the American people to follow them into this major trade agreement—19 could say they knew what was in the document.

Mr. Chairman, I certainly support the efforts of the committee to discern what is credible and what is fictitious among the government's economic projections on NAFTA. I also want to challenge the community of macro-economists of this nation to require more responsible work when their work weighs upon this nation's major economic decisions.

Chairman GLENN. Dr. London, we look forward to your testimony. Thank you.

TESTIMONY OF PAUL A. LONDON, ACTING UNDERSECRETARY OF COMMERCE FOR ECONOMIC AFFAIRS

Mr. LONDON. Thank you very much, Mr. Chairman and Senators. I have a long statement which I know you have received and I would like to have it put in the record, if I could.

Chairman GLENN. Without objection, the entire statement will be included in the record, and deliver whatever portions you wish to.

Mr. LONDON. Thanks very much. My name is Paul London. I am the Acting Undersecretary of Commerce for Economic Affairs. It is a pleasure to be here today to discuss the data and methodology the Administration has used to project job growth from the NAFTA and the question of investment in Mexico which Senator Glenn asked about earlier.

Let me say at the beginning that the Administration understands the Committee's concern about job numbers relating to the NAFTA. We share your concern. We support this agreement because we believe it is good for American working people. We support it because we believe that the NAFTA will make this country more competitive in the global economy where our greatest challenges come not from Mexico, but from mostly high-wage countries in Asia and Europe.

The Committee's letter of October 27th raised three central issues which I would like to address. Since the question of export statistics and maquiladora-type exports has been a central one for the Committee in the past, let me try to deal with it first. Then I will discuss the methodology used to estimate the number of jobs dependent on exports to Mexico, and, third, I will discuss that investment issue that was mentioned.

First, with regard to maquiladora-type component exports, we do not believe that they account for more than a fairly modest fraction of the very large increase in U.S. exports to Mexico in the past several years. U.S. International Trade Commission data shows that U.S. exports to Mexico have risen by about $25.6 billion since 1987, while imports of components from Mexico have risen by only $4.2 billion—25.6 versus 4.2, so the imports of components are rising much more slowly.

USTR, using data from the ITC through 1992, estimated that about 78 percent, or $31 billion, of U.S. exports to Mexico were for consumption in Mexico. Reimports of U.S. components from Mexico totaled about 21.9 percent, or $8.7 billion, of U.S. exports in 1992, a share that has fallen by one-third since 1987.

Other Commerce Department data support this view. It shows that 70 percent of sales of majority-owned affiliates of U.S. firms in Mexico were sales in Mexico, not exports to the United States. Most sales by U.S. affiliates, therefore, are to serve the growing Mexico market, as you would expect, and not to reexport to the United States.

The Mexican economy has grown and opened up in the past several years, and the share of U.S. exports that even theoretically meet this sort of maquiladora model that has been discussed here has dropped sharply from about 30 percent to something like 20 percent. It is also important to note that maquiladoras will be phased out under the NAFTA. There will be no reason to move assembly operations to Mexico to avoid U.S. tariffs. Other Mexican

legal requirements, for example, in the auto and auto parts area that plants export as a condition for selling in Mexico will be phased out. So NAFTA solves some of the problems that have been the concern of this Committee.

Now, let me turn to the second major issue in the letter of October 27th, job growth claims related to NAFTA. The basic data comes from the Commerce Department publication "U.S. Jobs Supported by Merchandise Exports to Mexico." That document reports that the number of U.S. jobs supported by merchandise exports rose from about 274,000 in 1986 to 538,000 in 1990. USTR took these numbers and extrapolated the job figure forward to 1992.

U.S. exports to Mexico grew an average of about 20 percent a year from 1990 to 1992, with jobs attributable to exports reaching about 716,000. To reach 900,000 jobs by 1995, an increase of about 200,000, U.S. exports to Mexico would need to grow at about 12 percent a year over the next 3 years, reaching $57 billion, the figure that Senator Levin mentioned.

It is clear that these are gross export numbers, but I believe they yield a reasonable and conservative approximation of the likely job benefits of the NAFTA, and there are several reasons for this. First, the U.S. has a large trade surplus with Mexico that clearly indicates net job creation in the United States. In 1992, the U.S. had exports of over $40 billion to Mexico and an overall surplus of $5.4 billion with that country. It is probably one of the biggest trade surpluses we have.

The U.S. trade surplus in manufactured goods with Mexico is larger still. In 1992, it was $7.5 billion, so we have a $7.5 billion trade surplus with Mexico in manufactured goods. If Mexico continues to grow rapidly, as we would expect it to if the NAFTA passes, it is likely to run a significant trade deficit with the United States for a long time. This is Mexico's history. It is the record of most developing countries. They don't want to export. They want to import and build up their economy.

Only 8 years ago, in 1985, when Mexico could not get financing to grow, the U.S. had a trade deficit of $5.5 billion with Mexico. U.S. workers, therefore, have gained enormously from Mexican growth and the NAFTA positions them to continue to do so. The estimates of job creation also are conservative because they do not include the job impacts of increased economic efficiency in North America as a whole as a result of the NAFTA. That increased efficiency will help U.S., Mexican and Canadian firms to compete on better terms with firms from Japan, Europe and Southeast Asian countries. These countries, many with high wages, are obviously our most important competitors in the global market.

A number of other studies project similar increases in U.S. employment as a result of the NAFTA. I understand Senator Levin's frustration with the variety of these different numbers, different methodologies. I think you can understand the numbers are really quite close. When we are looking at an economy with 120 million jobs and we are looking at an economy that creates 2 or 3 million jobs a year and where 2 or 3 million other jobs are lost, you can understand that these are really quite small differences.

The dangers to U.S. jobs if NAFTA fails are very real, on the other hand. During the Mexican debt crisis of the early 1980's, U.S.

exports to Mexico fell by 49 percent in 2 years, from $17.8 billion in 1981 to $9.1 billion in 1983. We would be in quite a pickle if our exports, now about $40 billion, dropped something like that again.

In summary, while the 200,000 jobs number is a rough estimate, increasing U.S. exports to Mexico certainly are creating additional manufacturing jobs in the U.S., and NAFTA, by fostering growth and liberalization in Mexico, will create more.

The final question in your letter is about a possible shift in investment to Mexico. U.S. investment in Mexico is a very small fraction of U.S. investment overseas, and an even smaller part of overall U.S. investment. Table 2 in the testimony I submitted shows that cumulative U.S. investment in Mexico was only 2.7 percent of cumulative U.S. overseas investment in 1992. Table 3 of that testimony shows that U.S. investment in Mexico on an annual basis is only a fraction of 1 percent of total U.S. non-residential investment, which was about $536 billion in 1992.

Some have said that the NAFTA could lead to a doubling of foreign direct investment in Mexico. Even if this high-end projection becomes reality, however, U.S. investment in Mexico will equal less than 1 percent of overall U.S. non-residential investment. U.S. investment in Mexico, although small in absolute and relative terms, should be seen in relation to what our high-wage competitors are doing in other areas. The Japanese annual investment in just Thailand and Hong Kong usually exceeds U.S. investment in Mexico by a significant amount. EC countries also have been increasing their investments in developing areas, especially those associated with the Community.

Growing Japanese investments in Southeast Asia and EC investments in southern and eastern Europe do two basic things. First, they give our competitors advantages in these growing markets and, second, they enhance their ability to compete with us worldwide. U.S. investment in Mexico, by the same token, is important as a way to expand a growing market for U.S. exports and improve the global competitiveness of the country.

It also is important to note that much of the U.S. investment in Mexico comes and will continue to come from reinvesting profits of U.S. subsidiaries in Mexico, not new capital outflows. I think it is a pretty startling number to see that from 1989 to 1992, reinvested earnings were about 70 percent of the total net U.S. investment in Mexico.

Moreover, it is incorrect to assume that an increase in U.S. investment in Mexico will decrease investment within the U.S. The expansion of the European Community to include several developing countries has increased investment in both the advanced and the less advanced part of the Community. The growth in U.S. exports to Mexico as a result of the NAFTA will spur more investment within the U.S., not reduce it. Rising sales to Mexico go hand in hand with greater domestic and foreign investment in the U.S. because capacity is needed here to supply these exports.

It is no accident that BMW and Mercedes have just elected to build plants in the U.S. and not in Mexico. It is no accident that U.S. firms like AT&T are now moving investments back to Mexico from Asia, and as Mexico moves to build up its industrial capacity

it usually turns to its largest trading partner to obtain the necessary capital equipment. I think we provide something like 70 percent of their imports. If these investments were going into Asia, it would be something like 10 or 20 percent, so it is a very good deal for us.

In summary, we have tried to deal in this testimony with the three issue areas raised in the October 27th letter. Our view is that pressures on U.S. firms to move to Mexico to assemble U.S. parts for reexport will be reduced by the NAFTA. We also believe that trade with Mexico clearly is creating manufacturing jobs in the U.S. and that the rough estimate of 200,000 additional jobs from exports to Mexico is defensible. Finally, we believe investment in growth in Mexico diverts little, if any, investment from the U.S. and that healthy growth in Mexico actually encourages greater investment here.

Thank you very much for this opportunity to appear before the Committee and, of course, I am ready to take questions.

Prepared Statement of Dr. Paul A. London

My name is Paul A. London. I am the acting Under Secretary of Commerce for Economic Affairs.

It is a pleasure to be here today to discuss the data and methodology the Administration has used to project job growth from the North American Free Trade Agreement (NAFTA), and the question of investment in Mexico.

Let me say at the beginning that the Administration understands the Committee's concern about jobs in the United States. We share it. We would not support this agreement if we did not believe that it was good for American working people. We support it because we believe that the NAFTA will make this country more competitive in the global economy, where our greatest challenges come from mostly high wage countries in Asia and Europe.

We recognize, however, that some Senators believe U.S. exports to Mexico—particularly exports to maquiladoras—cost U.S. jobs. NAFTA, of course, will phase out the maquiladora system, but the concern remains. This was made clear at hearings of the Subcommittee on Oversight of this Committee on April 28, 1993, concerning U.S. trade data and the ability of the Bureau of the Census to separate out exports and imports to and from maquiladoras in Mexico.

The Committee's letter of Oct. 27 to Secretary Brown raised three central issues, which I would like to address. Since the question of export statistics and maquiladora exports has been a central one for the Committee let me try to deal with it first. Then I will discuss the methodology used to estimate the number of jobs dependent on exports to Mexico. And third, I will discuss the investment issue.

The first issue is the degree to which rising exports to Mexico represent exports of parts to be assembled in that country and reexported to the U.S.

The argument that increasing exports to Mexico may cost jobs is built on a number of assumptions and "hypotheticals." The most important assumption is that exports of U.S. components for assembly and reexport to the U.S. are the source of a large but unspecified share of U.S. exports to Mexico. Another is that if exports of U.S. components to Mexico did not take place, the components would continue to be assembled in the U.S. The U.S. assembly operations in other words 1) would stay open in the United States, and 2) would not move to another third country such as Singapore, the Dominican Republic, China, or Bangladesh.

Our view of U.S. exports to Mexico is different.

First, we do not believe that maquiladora trade relationships are much of a factor in the very large increase in U.S. exports to Mexico in the past several years, and we have some data and calculations that support our view. USITC data for example, shows that U.S. exports to Mexico have risen by about $25.6 billion since 1987, while imports of U.S. components from Mexico have risen only about $4.2 billion.

Second, we believe that the real-world alternative to many assembly operations in Mexico is the movement of such operations—in part or lock, stock and barrel to Southeast Asia or elsewhere. In these cases, the losses to the U.S. in terms of jobs would be much greater because the job-creating connections to the U.S. of these third countries are usually significantly weaker than the Mexican connection. For

example, the U.S. content of products made by U.S. companies in Asia is 20 percent, while the U.S. content of products made by U.S. companies in Mexico is 70 percent.

Looking at these issues in order, let me try to deal with the hypothetical case of the U.S. assembly operation moving to Mexico so that an increase in exports means fewer U.S. jobs. The limited data we have on this subject suggests that such cases are not at all typical.

USTR, using data from the ITC that extends a recent GAO analysis through 1992, estimates that about 78 percent (about $30.9 billion) of U.S. exports to Mexico were for consumption in Mexico. Reimports of U.S. components from Mexico totalled 21.9 percent ($8.7 billion) of U.S. exports in 1992, a share that has fallen by one third since 1987.

In other words, as the Mexican economy has grown and opened up, the share of U.S. exports that even theoretically could meet the hypothetical model has dropped sharply.

Other Commerce Department data supports this view. It shows that 70 percent of the sales of majority-owned affiliates of U.S. firms in Mexico were sales in Mexico not exports to the U.S. Most sales of U.S. affiliates, in other words, are to serve the expanding Mexican market not the U.S. market.

These numbers set the outside parameters of the "hypothetical" case. Other facts further limit its relevance. We believe, for example, that many U.S. assembly operations in Mexico are an alternative to 1) shutting down production in the U.S., or 2) moving the assembly operations to another developing country and hurting component makers as well. In these cases, assembly operations in Mexico save U.S. jobs so it is perfectly reasonable to see these exports as job-creating.

U.S. firms that would fit the hypothetical are those where the only two alternatives are a) the status quo—assembly in the U.S. with nothing changing, or b) a move to Mexico. We do not believe that many firms have such constrained choices.

It is also important to note that maquiladoras, which might include some firms that fit the hypothetical model, will be phased out under the NAFTA. At the end of the transition period, plants in the maquiladoras will be able to sell their production in Mexico, an option which is very severely limited by current Mexican law. In addition, other Mexican requirements—for example in the auto and auto parts area—that plants export as a condition for selling in Mexico will be phased down.

In summary, component exports for reimport into the U.S. represent only a modest and diminishing share of U.S. exports to Mexico. Moreover, they almost certainly work to preserve jobs in this country because the alternative is not likely to be the status quo, but instead closure or movement to other developing countries with a lower propensity to "buy American."

Now let me turn to the second major issue in the letter of October 27. In that letter you asked how the Administration developed the job growth claims relating to NAFTA.

The basic data comes for the Commerce Department publication, "U.S. Jobs Supported by Merchandise Exports to Mexico" (Economics and Statistics Administration; Office of the Chief Economist, OMA Research Series 2–92; May 1992). That document reports that the number of U.S. jobs supported by merchandise exports to Mexico rose from 274,000 in 1986 to 538,000 in 1990.

The methodology used is a calculation of the number of jobs required to produce and transport the goods that are exported. It is not an alternative scenario approach, or a forecast approach.

The estimation of the jobs number uses a methodology in conjunction with the 484 sector input-output model of the U.S. economy developed by the Interindustry Economic Research Fund, commonly referred to as INFORUM, at the Department of Economics at the University of Maryland.

The number of jobs supported by merchandise exports reflects the estimated number of jobs *directly* required to produce the exported goods: the jobs required *upstream* in the production process to produce the raw materials, parts, and capital goods used in the production process; and the number of jobs required *downstream* to move the goods to the port of exportation. It does not include the multiplier impacts on other industries of these jobs.

The key assumptions in deriving these estimates are: 1) Jobs upstream and downstream in the production and distribution process, including capital goods requirements, are supported by merchandise exports. 2) Exports are measured by domestic exports, and exclude exports of foreign merchandise; that is, reexports of foreign goods do not significantly contribute, per dollar of export, to U.S. jobs. 3) Technology and productivity change occurs annually. 4) Use of imported inputs lowers the total number of U.S. jobs required-to produce exports. 5) The number of jobs supported in each sector differs significantly across producing industries, and thus, between output for export versus output for domestic consumption and for capital invest-

ment. 6) Full-time-equivalent jobs, as reported by the Bureau of Economic Analysis, are the most stable uniform basis of measuring jobs for the purpose of this analysis. 7) Only an insignificant share of U.S. government employees are required in the production of U.S. merchandise exports.

The model has several limitations. First, the results of this model are estimates for a given period. The number of jobs per billion dollars of exports is an average for that period. In technical terms, these data are not usable for marginal analysis.

USTR took these numbers and extrapolated the jobs figure forward to 1992 based on (1) the growth in exports to Mexico from 1990 to 1992 and (2) U.S. jobs per billion dollars of exports as reported in the table below.

Table 1

Year	Merchandise Exports to Mexico ($ millions)	U.S. Jobs Supported by Exports to Mexico (in thousands)	U.S. Jobs per $bn of exports
1986	12,392	274	22,110
1987	14,582	309	21,191
1988	20,628	417	20,215
1989	24,982	498	19,934
1990	28,279	538	19,025
1991	33,276	(est) 610	(est) 18,321
1992	40,597	(est) 716	(est) 17,643

U.S. jobs supported by each billion dollars in exports declines from year to year both because of price inflation and rising productivity in the sectors producing U.S. merchandise exports.[1]

Once the jobs per billion dollars of exports to Mexico were estimated, that figure was multiplied by the total value of merchandise exports to Mexico to provide an estimate of the total number of U.S. jobs supported by exports to Mexico in 1991 and 1992.[2]

The estimate that U.S. jobs related to merchandise exports to Mexico could rise by about 200,000 to as many as 900,000 by 1995 is similar conclusion of Gary Clyde Hufbauer and Jeffrey J. Scott, in their book *NAFTA: An Assessment* (Institute for International Economics, 1993). Using the same 1990 base data from the Commerce Department on exports to Mexico and related U.S. employment reported above, Hufbauer and Scott argue that U.S. exports, with NAFTA, will continue to grow to such an extent that 854,000 U.S. jobs will be supported by 1995.

Since NAFTA negotiations were announced, U.S. exports to Mexico have grown very rapidly—an average of roughly 20 percent a year from 1990 to 1992. To reach 900,000 jobs by 1995, U.S. exports to Mexico would need to grow by about 12 percent a year over the next 3 years (reaching an estimated $57 billion in 1995 with jobs per billion dollars declining at a 3.7 percent annual rate to 15,755 in that year).

It is clear from the above methodology, that these are gross not net numbers. The calculation is limited to jobs that will be created by increasing exports to Mexico.

Some see this as a major weakness of the calculations but we do not for several reasons. First, the U.S. has a large trade surplus with Mexico that clearly indicates net job creation, and is likely to persist. In 1992, the U.S. had exports of over $40 billion to Mexico and an overall surplus of $5.4 billion with that country.

Only eight years ago in 1985, when Mexico was in a severe depression and its economy tied up in knots, the U.S. had exports of only about $12 billion to Mexico and a trade deficit of $5.5 billion with that country. U.S. workers have gained enormously from Mexican economic growth and the NAFTA positions them to continue to do so.

In fact, the U.S. has a much bigger surplus in manufacturing with Mexico than we have overall with that country. This is because we import about $4.3 billion worth of oil from Mexico. In 1992, the U.S. surplus with Mexico on manufactured goods was $7.5 billion. In 1993, the U.S. surplus on manufactured goods with Mexico based on eight months of data through August, is likely to still be about $5.5 billion, despite slower growth in Mexico, some of it no doubt related to NAFTA jitters.

[1] The rate of decline in jobs per billion dollars of exports to Mexico was 3.7 percent per annum between 1983 and 1990, and this rate of decline is assumed to continue out to 1995 in the "jobs attributed to exports" calculation.

[2] These figures relate only to jobs supported by U.S. merchandise exports to Mexico, and do not include jobs related to the exports of services.

The estimates of job creation also are conservative for another reason. That is because there is no calculation of the job impacts of increased economic efficiency in North America as a whole as a result of the NAFTA. That increased efficiency will allow the U.S., Mexico and Canada to compete on better terms with Japanese, European, and Southeast Asian countries. These countries, many with high wages, are obviously our most important competitors in the global market place.

Of course, we recognize that as U.S. exports to Mexico have soared and as the U.S. trade balance with Mexico has gone from deficit to surplus in recent years, imports from Mexico have grown. We do not know, however, how much of this growth in imports from Mexico displaces imports from other countries. But since U.S. trade barriers are very low, it is reasonable to assume that many imports from Mexico would come from elsewhere were they not coming from that country.

We also know that when Mexico is growing rapidly, as we would expect it to do if NAFTA passes, it is likely to run a significant trade deficit with the United States. This is Mexico's history. It is the record of most other developing countries.

It is important to note, in this regard, that during the Mexican debt crisis of the early 1980s, when Mexico could not finance substantial imports, U.S. exports to Mexico fell by 49 percent in two years (from $17.8 billion in 1981 to $9.1 billion in 1983). A repeat of such an occurrence if Mexico is again unable to finance an import surplus would certainly not be good for the United States or for American workers.

In summary, while the 200,000 jobs number is a rough estimate, increasing U.S. exports to Mexico are creating additional manufacturing jobs in the U.S. without doubt, and NAFTA by fostering growth and liberalization in Mexico will create more.

The final question in your letter is about a possible shift in investment to Mexico. Much of the argument against the NAFTA is based on concerns that the agreement will spur large outflows of U.S. investment to Mexico. The fear is that this would reduce investment and employment in the U.S., and in the long run lead to the elimination or reversal of the U.S. trade surplus with Mexico. The logic of this argument breaks down when the facts are examined.

U.S. investment in Mexico is a very small fraction of U.S. investment overseas, and an even smaller part of overall U.S. investment. Table 2 shows that cumulative U.S. investment in Mexico was only 2.7 percent of cumulative U.S. overseas investment in 1992. Table 3 shows that U.S. investment in Mexico on an annual basis is only a fraction of 1 percent of total U.S. non-residential investment, which was about $536 billion in 1992.

Some have said that the NAFTA could lead to a doubling of foreign direct investment in Mexico.[3] Even if this "high-end" projection becomes reality, however, U.S. investment in Mexico will equal less than 1 percent of overall U.S. non-residential investment.

U.S. investment in Mexico, although small in absolute and relative terms, should be seen in relation to what our chief competitors are doing in other areas. Growing Japanese investments in Southeast Asia and EC investments in Southern and Eastern Europe do two basic things. They 1) give our competitors advantages in these growing markets, and 2) enhance their ability to compete with U.S. producers worldwide.

U.S. investment in Mexico by the same token is important as a way to expand a growing market for U.S. exports and improve the global competitiveness of the U.S. To understand this, we need only look at Japan and Europe, our most important competitors worldwide.

Table 4 shows that Japanese annual investment in just Thailand and Hong Kong usually exceeds U.S. investment in Mexico by a significant amount. EC countries also have been increasing their investments in developing areas, especially those associated with the Community.

Our high wage industrial competitors invest so much in these developing countries because they know that this is the way to develop new markets and improve their global competitiveness.

It also is important to note that much of the U.S. investment in Mexico already comes from reinvesting the profits of U.S. subsidiaries in Mexico, not new capital outflows. *From 1989–1992, reinvested earnings were $4.8 billion (68 percent) of the total $7.1 billion net outflow of U.S. investment to Mexico.*[4]

It is incorrect to assume that an increase in U.S. investment in Mexico will decrease investment within the U.S. The expansion of the European Community to in-

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[3] The Joint Economic Committee has conducted a review of economic models of the NAFTA. It finds that the Economic Strategy Institute is on the extreme end of the spectrum when it predicts that foreign direct investment in Mexico will double due to the NAFTA.

[4] Bureau of Economic Analysis, U.S. Department of Commerce.

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clude several developing countries has increased investment in both the advanced and the less advanced parts of the Community. The globalization of today's capital markets and NAFTA-related issues that will affect both the demand for and the supply of capital undercut the argument that increased investment in Mexico has to mean reduced investment in the U.S.

Investment funds from around the world, not just from the U.S., supply the necessary capital to support investment levels in the U.S. The existence of the NAFTA will increase the attractiveness of foreign investment in North America. Europeans and Asians as well as Americans will be more likely to invest in the U.S. because facilities funded by these investments will have free access to markets in all three member nations.[5] It is no accident that BMW and Mercedes have just elected to build plants in the U.S. not in Mexico.

Much of the future U.S. investment in Mexico is likely to be investment diverted from alternative investment projects in other countries, not U.S. domestic investment. In part, this will be because investments in Mexico will be more rational and efficient because firms will not have to invest in Mexico to meet Mexican legal requirements that now sometimes force investments as a condition for selling products in that country. If it makes economic sense to supply Mexico from new or existing plants in the U.S. rather than by building a plant in Mexico, NAFTA will make that possible.

The growth in U.S. exports to Mexico as a result of the NAFTA will spur more investment within the U.S. Increased Mexican growth and investment will increase U.S. exports and GDP. Rising sales to Mexico go hand in hand with greater domestic investment in the U.S. because capacity is needed here to supply these exports. As Mexico moves to build-up its industrial capacity, it usually turns to its largest trading partner to obtain the necessary capital equipment.[6]

Several economic models surveyed in a CBO report found that the NAFTA's effect on U.S. GDP is more positive when an increase in the Mexican capital stock is incorporated into the analysis. This is because U.S. investment in Mexico leads to larger U.S. exports of capital and consumer goods, which mean economic expansion in the U.S. U.S. investment in other regions does not generate nearly the same amount of U.S. GDP-expanding industrial exports. In addition, an increase in U.S. investment in Mexico will affect the exchange rate in a way that is favorable to U.S. exporters of consumer goods.

Finally and very important, increased investment in Mexico will allow U.S. firms to improve their global competitiveness, which also will lead to increased investment. The NAFTA arrangement will provide economies of scale and scope for integrated U.S. multinationals, which will improve the competitive position of their production facilities within the U.S. This has been the case with Japanese investment in Southeast Asia and EC investment in Eastern Europe.

In summary, we have tried to deal in this testimony with the three issue areas raised in the October 27 letter. Our view is that the hypothetical case of U.S. firms moving to Mexico to assemble U.S. parts for reexport is far from the norm for several reasons which we have outlined. We also believe that trade with Mexico clearly is creating manufacturing jobs in the U.S. and that the rough estimate of 200,000 additional jobs from exports to Mexico is defensible. Finally, we believe investment in Mexico diverts little if any investment from the U.S. and that healthy growth in Mexico actually encourages greater investment here.

Thank you very much for this opportunity to appear before your committee.

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[5] This regional attraction has certainly been the case with the EC, where despite the inclusion of low-wage nations—Spain, Portugal, and Ireland—investment in the high-wage nations has not suffered.

[6] For example, the Deer Park oil refinery in Texas outside Houston, is a U.S.-Mexican joint venture, which will lead to about $1 billion in sales of U.S. steel and equipment. New investments of this sort in Mexico will create similar demands for U.S. products, and stimulate additional investments in the U.S. by those who supply this NAFTA-related demand.

Table 2

U.S. Dollars in Millions

Year	Cumulative U.S. Direct Investment in Mexico	Percent of Total Cumulative U.S. FDI [1]
1985	5,088	2.2
1986	4,623	1.8
1987	4,913	1.6
1988	5,712	1.7
1989	8,264	2.2
1990	10,255	2.4
1991	12,257	2.7
1992	13,330	2.7

[1] FDI stands for foreign direct investment.

Sources: General Accounting Office, "North American Free Trade Agreement: U.S.-Mexican Trade and Investment Data"; Bureau of Economic Analysis, U.S. Department of Commerce.

Table 3

U.S. Dollars in Millions

Year	Annual Net Outflow of U.S. Investment to Mexico [1]	Percent of Annual U.S. Domestic Investment [2]
1985	136	0.03
1986	(446)	——
1987	310	0.06
1988	670	0.1
1989	1,652	0.3
1990	1,868	0.3
1991	2,305	0.5
1992	1,261	0.2

[1] Approximately 68 percent ($4.8 billion) of the net outflow of U.S. investment to Mexico since 1989 was reinvested earnings of U.S. companies in Mexico, not investment diverted from the U.S.

[2] U.S. domestic investment figures are investment within the U.S. by foreign and domestic sources, excluding residential and housing investment. The ratio is calculated in constant 1987 dollars.

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Economic Report of the President, January 1993.

Table 4

U.S. Dollars in Millions

Year	Annual Japanese Investment in Southeast Asia	Annual Japanese Investment in Hong Kong	Annual Japanese Investment in Thailand
1985	845	131	48
1986	1,813	502	124
1987	2,993	1,072	250
1988	4,510	1,662	859
1989	6,849	1,898	1,276
1990	5,234	1,785	1,154
1991	3,890	925	807

Source: OECD "International Direct Investment Statistics Yearbook 1993."

Chairman GLENN. Fine. Thank you very much, Dr. London. Run back through again, if you will, how you arrived at that 200,000 estimate of job gain? Was that an econometric study? Was it an equation? Was it a series of estimates or average of studies? What assumptions did you make in calculating that figure?

Mr. LONDON. It is an extrapolation of existing export numbers. What we do every year at the Commerce Department is take the exports to Mexico, or exports generally, and we run them through the INFORUM model. It is a 484-part import/export or input/out-

put model at the University of Maryland, and we get a job figure, how many jobs have been created by these exports.

The figure for 1990, which is in the table in my testimony, was about 538,000 jobs for Mexico. Then what USTR did was carry that forward and get the number for 1992—716,000. And we have carried that forward to give us a number for 1995, with a little adjustment. So, basically, it is based on the export numbers which we have already and it is projected forward.

Chairman GLENN. Well, this was made out of your own estimates, then. Yet, we have quite a number of studies whose estimates are all over the lot. Is that because of uncertainty? I don't see how you can feel very comfortable with your estimates when there are so many studies that vary with and differ from your conclusions.

Mr. LONDON. Senator Glenn, I don't think these are all over the lot. There is variation, but most of the studies—not all of the studies, as you pointed out, but most of the studies show that there will be a job gain for the United States from the NAFTA. There are one or two studies which come to a different conclusion and there have been some problems with those studies. One of them gets most of its job losses, maybe all of its job losses, from the fact that fewer Mexicans come to the United States looking for work. But most of the studies are in this ball park.

We are dealing in a huge economy with 120 million jobs. We are dealing with rather small changes, and so the numbers are not really that precise. I notice that when you summarized this and Senator Levin summarized it, you kept saying about 200,000 jobs, and I think the emphasis ought to be on the "about." The 200,000 figure is very defensible, but it is not a precise figure.

Chairman GLENN. We have had trouble getting an estimate of what changed investment patterns from NAFTA would do to overall employment in this country, how many jobs we would lose, how many jobs we would gain, depending on what investment patterns changed and whether investment that might be made in this country would now shift to Mexico. That seems to be a real variable and has a big impact, apparently, on the outcome of econometric studies. Did you factor in the possibility of an investment shift? What factors did you leave out? Was that one of them you left out of your estimate?

Mr. LONDON. No. I think investment underlies a lot of these studies, and I tried to mention in the testimony we are talking about investment in the United States in any given year of $536 billion. U.S. investment in Mexico last year was something like $1.7 billion, probably two-thirds of it reinvested profits of American firms in Mexico. So we are dealing with a very small fraction of U.S. investment in Mexico.

So when you try to see what these effects are an investment, I think there are a lot of reasons to believe some investments may be diversion from the United States, but the fact that we will have a larger North American market may mean, and I think will mean, that companies like BMW and Mercedes will decide to invest in the United States. It will be a bigger market, a good place to serve Mexico. So I think that it is very hard to see these as huge shifts.

They are not huge shifts. They are tiny shifts, and I don't think it will mean a reduction of investment in the United States.

Chairman GLENN. OK. I gathered from your statement, though—I would have to surmise that you feel that greater U.S. investment in Mexico will come at the expense of U.S. investment in other countries and not at the expense of U.S. domestic investment. Is that correct?

Mr. LONDON. I think there are a number of studies that point in that direction, one from the Dallas Federal Reserve Board. There are a number that I have in this folder over here that suggest that a lot of this investment—the alternative is not invest in the United States or invest in Mexico. If you can't invest in Mexico, some of these firms may close down in the United States. Some of them may go to China.

The alternative is not really stay open and invest in the United States. The alternative is really to look at the whole world, and I think these investments in Mexico—basically, few of them come directly out of the United States. Few of them fit this model where the alternative is investment in the United States or investment in Mexico.

Chairman GLENN. Did any of your studies run through different investment patterns and see what the impact is, so we would see what actually happens with some changes there?

Mr. LONDON. What we are looking at is not our studies; that is, U.S. Government studies. We are looking at a variety of different studies done by different groups—I think as Vice President Gore said last night, 23 studies. Some of them look at the investment issues, some of them look at it less, some of them may not look at it at all.

But the studies that I have seen or the comments that I have seen on the investment issues, again, echo what I have been saying that these are relatively small shifts and that a lot of this investment may actually be coming from the alternative of investment in Asia. There was a very interesting article in Business Week a year or 2 ago about this, the movement of firms back from Southeast Asia to the United States and to Mexico, and I think we are going to get a lot more of that than you have of direct shifts from the United States to Mexico.

Chairman GLENN. My time is up.

Senator Dorgan?

Senator DORGAN. Mr. Chairman, I thank Senator Levin for allowing me to ask just one question, perhaps two. I have to go preside over the Senate in a few moments.

Dr. London, what was the trade surplus that we had with Mexico in 1992?

Mr. LONDON. The trade surplus was $5.4 billion with Mexico in 1992.

Senator DORGAN. And that has been growing at what rate?

Mr. LONDON. It has been growing in the last 3 years, I believe, at about 20 percent.

Senator DORGAN. Now, what has happened with respect to the trade with Mexico for the first 8 months of this year?

Mr. LONDON. I think Mexico is having a little bit of NAFTA jitters, so the U.S. export surplus with Mexico is down a little bit in

the last year. I looked this up a few days ago and the surplus in manufactured goods has stayed up; that is, we are probably, based on numbers through August, going to have an export surplus with Mexico of about $5.5 billion in 1993 in manufactured products.

Senator DORGAN. Well, might I ask you about that? You indicate that the growth has been about 20 percent of U.S. exports to Mexico, and that has slowed down a bit. In the first 8 months of this year, according to the information by the Census Bureau, that has slowed down not a little bit; it is 2 percent growth. If you have a 2 percent growth of U.S. exports to Mexico in the first 8 months of this year, are any of those numbers in your studies? Are you evaluating what has changed in the last year with respect to trade with Mexico?

Mr. LONDON. Well, you know, it is clear that Mexican growth has slowed, and this is one of our big problems.

Senator DORGAN. But not just a little. I mean, wouldn't you agree that if you went from a 20-percent growth, as you have said, that we have had over the last several years to a 2 percent growth, at least for the first 8 months' experience, measuring 8 months last year to 8 months this year, that wouldn't be a little change. That would be a rather substantial change.

Mr. LONDON. Yes, it is a substantial change, but I think less of it—as I have pointed out, less of it is in the industrial or manufactured goods category where most of the jobs are. But I would say that we have to be—one of the reasons that this NAFTA is so important is that when Mexico is growing fast, we do well with Mexico. When Mexico was growing very slowly after the debt crisis in 1982 and for the next several years, Mexico had a trade surplus with us for the first time in its history.

So I think one of the really important things is that we get this passed and we continue to encourage rapid growth in Mexico because these job figures, as I think you are pointing out, depend very much—how many jobs are created in the United States depends a great deal on how fast Mexico grows.

Senator DORGAN. But I am trying to understand what information you used in order to make projections. If exports from the U.S. to Mexico have slowed to 2 percent growth last year versus this, and if imports from Mexico have risen to 11 percent, isn't that a substantial change in that trade picture, and have you included any of that analysis in your studies?

Mr. LONDON. Well, in our studies, no, but I think your point is well taken. It is a change. It affects the kinds of projections we would make. You know, if we had those numbers in front of us when these projections were made back several months, maybe the projections would have been different.

But over the period of Mexican liberalization, starting in about 1987, the growth of U.S. exports has been really startling. It has gone from, I think, something like $12 billion of exports in 1986 to something like $40 billion in 1992, and it is going to stay at $40 billion this year. It is not going down. It is growing, but it is growing more slowly.

Senator DORGAN. I accept that, but you are in the business of evaluating trends. My question is if, on October 15th, we have data this year through August which shows the trends have changed, or

at least the experience this year is markedly different—exports to Mexico are up only 2 percent, versus previously 20 percent. Imports from Mexico are up substantially over what they used to be. Therefore, wouldn't you in the next month or so, from that October 15th period, begin trying to figure out how do we at least factor this in, and what does that do to our conclusions?

What I sense is that you have said this is going to create 200,000 jobs, period, and we are not going to look at all the other extraneous things. Is somebody going to take a look at this October 15th information that at least to me suggests a substantial change in this 8-month period of exports and imports and factor that into what your analysis is with respect to jobs?

Mr. LONDON. We don't do this on a real-time basis, these projections, but I am sure that we will be factoring this in over a period of time.

Senator DORGAN. But we are going to vote on a real-time basis on November 17th in the House.

Mr. LONDON. Well, on the real-time basis, I think you can vote on the basis of the fact that we still have about a $5.5 billion trade surplus on manufactured goods with them, and that is likely to hold up for the end of the year.

Senator DORGAN. Senator Levin has been very generous with his time. This, to me, demonstrates, I think, the weakness of saying here is our conclusion and whatever happens in between when we make the conclusion and where we are now might or might not get into the factors. That is what Senator Levin has been talking about with respect to NAFTA math and it concerns me, at least, and I would hope that we could find better methods to develop estimates.

But, Senator Levin, thank you very much. I have to run off to preside over the Senate.

Chairman GLENN. Senator Levin?

Senator LEVIN. Thank you, Mr. Chairman. First, I want to focus on that 200,000 new jobs number which has been consistently touted by the Administration. The Administration forecasts that NAFTA will create an additional 200,000 high-wage jobs by 1995.

First question: Is the 200,000 job gain number a gross number?

Mr. LONDON. Yes.

Senator LEVIN. It is based exclusively on your projection of export increases, is that correct?

Mr. LONDON. That is my understanding, yes.

Senator LEVIN. Now, what is the net number after job losses from imports are deducted?

Mr. LONDON. Well, we haven't done that calculation. I know that in the last hearings that you had on this subject back in April, you asked for a set of articles from—I believe it was from the Labor Review of 1962 or something where, in the 1960's, I understand, they did try to do these kinds of calculations.

It turns out that making the calculations on the import side is much more difficult. I read over those articles. I thought they were very interesting. We do not do the calculations on the import side because they are just very difficult to do. I noticed, for example, in those articles that a lot of imports are really, sort of like oil imports, basically requirements. They are not something that we make and we are replacing a U.S. product.

The exports have a different character. You know, we export them. If we don't export them to Mexico, we probably can't shift them to Southeast Asia. The people who export to Mexico either export to Mexico or they don't make the sales. But you don't have the same kind of symmetry with imports, and so we haven't been doing that. I know that this is an issue that you have raised over and over again. It is a very difficult one. I can't go beyond that very old article. It is a difficult issue.

Senator LEVIN. The reason that I raise it is that the 200,000 job number is presented as 200,000 new jobs. The Administration doesn't tell the public these are 200,000 new jobs that we believe additional exports will create and we have not deducted the job losses which will be resulting from additional imports because of the difficulty of doing that. That is not the way it is presented to the public.

Mr. LONDON. I have tried to deal with that in this testimony by noting that, you know, Mexico is really quite an extraordinary country from our point of view; that is, we have this large manufacturing trade surplus——

Senator LEVIN. But what you haven't dealt with is what I am asking about. The Administration is presenting the 200,000 new jobs not as a net number after deducting jobs lost to additional imports, but as a gross number, 200,000 new jobs, and it is a distortion to present that to the American public.

Now, once you concede, as you do, that there is no reduction reflected in that 200,000 number for jobs lost from imports, for whatever reason, you can't present that honestly as a net job increase under NAFTA. It is not an accurate representation of your own figures. I am not talking about 38 think tanks with all kinds of figures. I am talking about the Administration's figures.

You know, I want to be real clear on it because I think you are being clear. You are telling us, as I understand it, that there will be some job losses from imports and that you cannot and have not estimated what they will be. Is that accurate?

Mr. LONDON. Well, you know, I think it is——

Senator LEVIN. Let me split the question. Will there be some job losses from additional imports under NAFTA?

Mr. LONDON. You know, I think, as I have tried to say, it is a very difficult question and I know there is a temptation to sort of say, you know, yes, and get it over with. But I think it is a more complicated question than that.

I think that we do have this substantial surplus with Mexico. These are not sales to Mexico that we would have somewhere else; these are not sales to Mexico that we would have somewhere else if we didn't have them to Mexico. So I think I am pretty comfortable, for a lot of reasons which I laid out in that testimony, that this number, although an approximation and a gross number, as I have said and as we agree, is pretty close to accurate.

I point to these other studies, and I am sure you have seen the lists of other studies, as I have, which all come to very similar conclusions. So this methodology may be a little uncomfortable for you and——

Senator LEVIN. It is not uncomfortable for me. I think it should be uncomfortable for the Administration because, Dr. London, oth-

ers in the Administration have acknowledged, when pressed, that this is a gross number and that there has been no deduction for jobs that will be lost from imports and that some jobs will be lost from imports. Are you not going to concede here that much, when other Administration people have conceded there are going to be some jobs lost from imports? Are you not going to concede that much before this Committee?

Mr. LONDON. No. I would concede that, you know, you have to look at some of the imports where we are producing competitive products and say that these are losses. But I think——

Senator LEVIN. OK, let's just stop right there. There will be——

Mr. LONDON. Do we have to stop?

Senator LEVIN. Yes, we do because I want it to be real clear. There will be some jobs lost from imports, additional jobs lost from imports under NAFTA?

Mr. LONDON. Well, that goes a little further because that says those jobs would not have gone to Southeast Asia.

Senator LEVIN. No. Factor all that stuff in. After all your qualifications and everything else, there will be some jobs lost as a result of additional imports under NAFTA. Is that not true?

Mr. LONDON. Well, if we keep the "some" real small.

Senator LEVIN. Whatever that "some" is, there will be some jobs lost.

Mr. LONDON. I think most of these——

Senator LEVIN. Dr. London, I think we are entitled to a clear answer on this, I really do. I think we are entitled to be told, and the American public is entitled to be told, and has been when the Administration has been pressed. I am surprised you are not conceding this this afternoon without being asked four times, but I will ask you a fifth time. Will you not concede that there will be some jobs lost from additional imports under NAFTA?

Mr. LONDON. I think there will be some, but that most of these potential job losses, most of these alternatives, we would have had other imports from Southeast Asia. We have very low tariffs.

Senator LEVIN. I understand all that.

Mr. LONDON. You understand it all, all right.

Senator LEVIN. I have gotten all of your qualifications. What we are trying to get is agreement that there will, after all of your qualifications, be some job losses as a result of added imports under NAFTA from Mexico.

Mr. LONDON. OK.

Senator LEVIN. All right. Is that true?

Mr. LONDON. Yes, but I still think the 200 is a pretty good estimate.

Senator LEVIN. We will get to the 200 in a minute. Once you agree, as you have now, that there are some job losses, it seems to me there are two other things that, in all honesty, you should agree to. Number one, whatever they are, they have not been deducted from that gross 200,000-job figure. Is that accurate?

Mr. LONDON. Yes.

Senator LEVIN. Number two, you have not estimated what that job loss will be. That is what you told us a moment ago.

Mr. LONDON. OK.

Senator LEVIN. So now we have got three statements. One, the 200,000-job figure used by the Administration is a gross figure reflecting your view of jobs created from additional exports. That is number one. Number two, there will be some jobs lost as a result of additional imports. Number three, you have not estimated what that job loss will be, nor have you deducted it from the 200,000 figure which has been used. Is that accurate?

Mr. LONDON. Yes, that is accurate, but it doesn't—there are other factors which I mentioned in the testimony which make that 200,000 figure perhaps modest because we have not talked about, for example, how much more competitive we become in third markets. This is just our bilateral trade with Mexico.

Senator LEVIN. I understand all that.

Mr. LONDON. OK.

Senator LEVIN. I understand all the qualifications.

Mr. LONDON. So I don't think the 200,000 jobs is necessarily, because we haven't done all the things that you mentioned which might reduce that—we haven't done the other things that might increase it.

Senator LEVIN. Yes, but it is represented as a net figure. You say it is a gross figure. It is represented as a net figure by this Administration.

Mr. LONDON. Well, it is put out there. It is a number that people focus on.

Senator LEVIN. Yes.

Mr. LONDON. And I understand your problem, but I don't——

Senator LEVIN. No, it is not my problem. It is not my problem, it is not my problem. It is the Administration's problem. The American people are entitled to whatever the best judgment is of the Administration. The best judgment of the Administration—you have given it to us honestly—is that that is a gross figure, that there is no reduction for jobs lost to imports. Whatever that number is, you have not been able to estimate, nor have you estimated, the jobs lost to imports, and have not deducted any figure for jobs lost from imports from that figure.

You have acknowledged all that today. Now, let's see what the Administration says. Now, let's take a look at what the Administration represents to the American people.

Can we put the TV on?

[Videotape shown.]

Senator LEVIN. What would you think about an agreement that created 200,000 new jobs? Now, that is what the American people are seeing consistently from the President and everybody else, 200,000 jobs, not what you said, gross exports, and we haven't deducted the imports which you concede will cost us some jobs. You have given us part of the picture and it is a distortion.

Do you know what? I think that it has been done very purposefully to put a figure in the American public's mind of 200,000 jobs without telling the American public that that is a figure which does not include something that you know will happen, which is that there will be some job losses from imports.

Now, let me just show you a couple of other things. Put up this chart of imports and exports. By the way, is there any doubt in

your mind but that the President and everybody else has put this forward as a net number?

Mr. LONDON. I think they have used this number as an approximation of what we will get from NAFTA.

Senator LEVIN. Let me show you this. These are the trade numbers we were talking about. Those are the export numbers from Mexico, and the import numbers. Those are the 1992 numbers, which you say have created a surplus of $5.4 billion.

Dr. London, you point to the left-hand side of that chart (exports) and you have said that certain numbers of jobs are created by all those exports. You have attributed jobs to exports. You project that that left-hand bar is going to be going up and then say there will be increased jobs when the exports go up. You attribute no lost jobs to the imports. But the import bar is about as high as the export bar.

Now, how can you attribute jobs only to exports and totally ignore the imports in the equation? How do you do that without saying, folks, this is a gross figure, this is a figure based only on the exports? How do you do that kind of intellectually?

Mr. LONDON. Well, again, I mentioned these articles, these very old articles, which talked about the difficulties of making an assessment on the import side. A lot of these imports are not substitutes for American products.

Senator LEVIN. Isn't it also true it is difficult on the export side to attribute precise numbers of jobs?

Mr. LONDON. Yes.

Senator LEVIN. Isn't it also difficult on the export side?

Mr. LONDON. Yes, it is difficult; I think less difficult, but it is difficult.

Senator LEVIN. And do you know what you do? You attribute precisely 17,643 jobs to each $1 billion of additional exports, very precise.

Mr. LONDON. I usually round it off a little.

Senator LEVIN. Pardon?

Mr. LONDON. I round it off a little.

Senator LEVIN. No, no, not your department; the Commerce Department doesn't. I had better be precise. The Commerce Department says 17,643 jobs, not 17,642 jobs, 17,643 jobs for each additional $1 billion in exports. And do you know what, folks? We are not going to even estimate jobs lost from imports at all; we are not going to attribute one lost job to imports, not one, in the 200,000 figure. Yet, the 200,000 figure is based on 17,643 jobs per $1 billion in exports.

Now, I find that intellectually indefensible and a significant distortion. You can't have it both ways. As a matter of fact, I was really intrigued by your testimony. In your testimony here today, you sort of acknowledged that, it seems to me. You say here on page 12, ". . . the U.S. has a large trade surplus with Mexico that clearly indicates net job creation." That is what you have told us in your testimony here today—net job creation from a surplus.

Mr. LONDON. I think everyone in the Administration has said there will be winners and losers. We understand that. I think, you know, these numbers—when you see the longer explanations and you read——

Senator LEVIN. From whom?

Mr. LONDON. In all of the studies, in the GAO report, in the ITC report, there is always a description of how these numbers are calculated. They make all the points that I have made today. They point out how difficult it is to do this, and we have said there will be winners and losers. I think that is clear.

Senator LEVIN. Your testimony today says that if there were an import surplus from Mexico, that would certainly not be good for the American worker. That is what your own testimony is.

Mr. LONDON. No. My testimony says that historically when there was, we did not have—when we lost those exports, when we lost half our exports to Mexico when Mexico had that serious debt crisis when they couldn't finance imports, we had a big problem. We had a big problem when all of Latin America had to restrict its imports.

The United States is a capital-exporting country. We export to developing countries like Mexico, principally, and it is very serious if these countries don't grow. We are having the same kind of problem with Japan and with Europe now. When they don't grow, we have export problems.

Senator LEVIN. By your calculations—let me just tell you what the Commerce Department is doing, which I find totally intellectually indefensible. By your calculations, you only look at exports. You don't look at imports. You only look at exports.

Here is Japan. Let's try NAFTA math on Japan. We exported to Japan $37 billion in 1988. Boy, there are 760,000 jobs that you are attributing to that by your equations. $44 billion in exports to Japan in 1989; there are 888,000 jobs, created by those exports, according to NAFTA math, to the job. I mean, you folks figure that out to the job, according to your math, your equations, when it comes to exports. By this math, in 1992, things are fabulous with Japan, folks. Look, we have got $47.7 billion in exports. That creates 841,571 jobs in America. Isn't it just grand?

Now, let's look at the other half of the picture. Imports are much greater. We have got deficits, big deficits, every year. You only look at exports. You use the equation of 17,643 jobs per $1 billion, and then you say jobs are created by exports and you ignore imports totally. If we used your math on Japan, if we used the way you folks talk about job creation and exports when it comes to our trade with Japan, we would be big winners because we have got, in 1992, 841,000 export-created jobs in America as a result of our trade in Japan.

And do you know what? Our trade in Japan is a disaster even though we got 841,000 jobs that you say are export-created. If you ignore imports, don't you come to the same conclusion with Japan? Things are just terrific. Look at all the export jobs we have created.

Mr. LONDON. Well, I think we are talking about NAFTA here today. I think one of the strongest arguments for NAFTA is that NAFTA is going to make us more competitive. I mean, the Japanese are doing the kinds of things in Southeast Asia that we will be doing or have been doing in Mexico, and it is important to have this kind of support. This is going to make us more competitive with Japan. I agree that the deficit with Japan is a huge problem.

Senator LEVIN. In other words, imports cost us jobs?

Mr. LONDON. Well, they cost us jobs, they cost us a lot of things. They do us some good in some areas, some industries.

Senator LEVIN. Sure, but do they cost us some jobs?

Mr. LONDON. Yes, probably.

Senator LEVIN. Why don't we just say the same darn thing with Mexico, be honest about it and then argue, folks, on the net we think we are ahead, instead of presenting a figure which is a gross figure that ignores totally the imports?

Look at what the President says. You know, this is the President of the United States. This isn't some 30-second TV ad here now. This is the President of the United States: "I believe that NAFTA will create 200,000 American jobs in the first two years of its effect." Then you have got the 200,000 figure ignoring imports totally.

If you would take a look at what our Cabinet Secretaries say, Secretary Bentsen says "We calculate that we'll pick up 200,000 more jobs in the next two years alone . . ." Secretary Brown: "The Administration forecasts that NAFTA will create an additional 200,000 high-wage jobs by 1995." Ambassador Kantor: "[W]e estimate a gain of 200,000 jobs just in the first two years," and on and on and on.

There is nothing there about jobs lost to imports, nothing. It is looking at part of the picture. Here you have got a letter to every member of the House of Representatives, Mr. Chairman, signed by 11 former Commerce Department Secretaries. "Estimates are that the United States will experience a net gain of 200,000 jobs as a result of NAFTA." That is what is being presented to the American public.

You have got half the picture from the highest person in the White House saying 200,000 jobs, ignoring totally, giving zero deduction, for jobs lost to imports, zero, although everyone acknowledges there will be some loss. You are going to dispute from here to eternity how many jobs are lost from imports, but you cannot honestly say, nor can anybody in this Administration, that there will not be some job losses to imports. Yet, there is no deduction for that.

Now, I think that is where this debate has been severely distorted when the Administration uses that kind of a number to persuade the American people, and that is not a coincidence that every single one uses 200,000 jobs and that 13 Commerce Secretaries from 1948 on use the same number. That is not a coincidence; that is intentional, that is purposeful.

We have asked the Commerce Department, Senator Dorgan and I, to revise that estimate or to make it clear that that is a gross figure before deduction for lost jobs for added imports. The Commerce Department has done neither. Why haven't you? Why haven't you made it clear that that is a gross figure? In all of the documents from the Commerce Department, why haven't they said that?

Mr. LONDON. I think I have tried to make the point. I don't know how to make it better, but the point is this is an estimate.

Senator LEVIN. Gross or net?

Mr. LONDON. It is a gross figure.

Senator LEVIN. Why don't you say that?

Mr. LONDON. Because there are other things. If we had wanted to gross it up, if we had wanted to make it bigger, it would have been possible to make it bigger. Some of the studies come out with really big numbers on both sides.

Senator LEVIN. I am just talking about imports and exports, though, Dr. London.

Mr. LONDON. But some of the studies come up with 2 million jobs.

Senator LEVIN. No. I am talking about your study. Forget all the other studies. Your study is that you just have 17,643 jobs per $1 billion. That is your study, but you ignore what you know is true that imports cost us jobs. You know that is true. If you can't estimate it, tell us. You told us today. Tell us you haven't estimated it, tell us you haven't deducted it, but don't give us gross numbers as though they are net numbers.

We have asked you to stop doing it and you don't stop it. Instead, we get this letter from Secretary Brown which says, "The Administration forecasts that NAFTA will create an additional 200,000 high-wage jobs by 1995." It is the same stuff. He doesn't say that is the gross figure and we haven't deducted for imports. He doesn't say it is a gross figure. It is not playing straight with the American public or with the Congress.

You know, all we can do is keep saying it and hope someone out there listens, but I think we are entitled to better than that. I am way over my time.

Chairman GLENN. In what sectors do you see the greatest change coming in? Let's say NAFTA goes into effect and is fully implemented. Senator Levin has made a point of the 200,000 jobs projection, but I back this up with an observation that a number of years ago—this has probably been maybe 7 or 8 years ago—I was on a trip to Mexico and met with a lot of the top government officials. At that time, as I recall, they had four industries they were going to concentrate on that were supposed to be their economic passports to a new world and a new day for Mexico.

As I recall them now, oil, fishing, tourism, and shoes were the economic sectors areas they were going to focus on. Now, have their plans changed, and if so, what have they changed to? What sectors do you see the greatest growth in? Whatever those changes are is what is going to impact our people, whether in Ohio, Michigan, or elsewhere. Where does the 200,000 come from, in what sectors of the economy?

Mr. LONDON. I can't really give you the answer to that, but I will give you my—I have looked at this for some time and I think there are some very interesting areas. The Mexicans talk about huge investments in modernizing their petrochemical industry and the oil industry generally. Those are opportunities for all sorts of American industries that make equipment for refineries.

We have a big trade surplus with Mexico in steel, as you may know, and those kinds of things—pipes, retorts, all the things that go into refinery modernization. The Mexicans have bought a share of a big American refinery at Deer Park outside of Houston. That is a $1 billion investment in the United States which makes jobs in the United States because the Mexicans want the low-lead fuel from that refinery, and they are going to move on and they are

going to modernize other refineries in Mexico. So I think there are huge opportunities in that area which, you know, sort of pass through the industrial food chain—steel, pipe; you know, you move up the line.

I think other areas—electric generation equipment—the Mexicans are talking about modernizing a huge—I think I saw the figure 17,000 megawatts of new capacity in the—don't hold me to that, please. That is a gross number; it is not a net number. I think that is the number I saw, and that involves huge opportunities for American firms. We are their natural supplier of these kinds of things. So I think there a lot of opportunities.

In the automobile area—I don't want to get into that because I am afraid Senator Levin will start asking me questions again, but I think in the automobile area there are very good opportunities. I think, you know, we have got a whole variety of things written into this NAFTA treaty which I think are good for the automobile industry and I think it will be a big gainer. So I will just stop with those three—electrical generation, refinery equipment, and automobiles—and leave it at that.

Chairman GLENN. Well, you mentioned that there were going to be winners and losers; there would be winners and losers that contributed to that 200,000 estimated jobs gain. Are those where you see the major winners for our country in the electrical, oil refining, and automobile sectors?

Mr. LONDON. Well, I think those—you know, again, that is not exactly the testimony that I prepared, but those are three areas where I think we are going to do very well.

Chairman GLENN. What do you see as being losers then?

Mr. LONDON. Well, I think, you know, sort of the way that this has been presented, and I think it is accurate, is we have some industries that nobody has to tell you have been getting hurt over the years. We have had losses of jobs in a variety of industries. I mean, garments go back—I remember being at a dinner where this complaint was made about the garment industry in 1959. It has been an industry that has been badly hurt over the years.

Now, some of those garment jobs now, instead of going to other places in the world—and they have been going all over the world—some of them may now go to Mexico, but I think there will be a continuation. Mexico will perhaps be the beneficiary, but there will be a continuing downsizing of some of these industries like garments. Whether there is a NAFTA or not, Mexico in this case is likely to be the beneficiary.

Chairman GLENN. I keep hearing that Mexico has such great need for production that the first increases in sales to Mexico will probably be in capital goods. Now, it seems to me that is a mixed blessing because the U.S. may make those sales originally, but those capital goods are being purchased to make goods to sell back here. So sustaining a net job gain over a period of time, it seems to me, becomes even more problematic than estimating one going in.

Do you do studies that project out over 5 years, 10 years, and so on, after the capital goods have been purchased and are now being used to make products to sell back here? Do you have estimates

that feed into what the job balance is going to be 10 years from now?

Mr. LONDON. Well, I am very interested in this question. It is an argument that has been made that, you know, after a short period of time the Mexicans turn around and it becomes an export platform and the trade surplus disappears. I have never believed that that was going to happen, and I have seen some recent papers which argue that a country like Mexico is going to run a trade deficit for a very long time. I mentioned in the testimony Spain and other countries, and the United States, in the last century ran trade deficits for a very long time.

Mexico is going to be a poorer country than the United States for a very long time. They are going to want to continue to import. That is one of the reasons they want investments so that they can support continuing imports from the United States. So I think that is going to go on for a long time. I don't think that is a 5-year or a 10-year phenomenon. I think it is a very long-term phenomenon.

I would also make the point that other countries in the world, the Japanese and the Germans, are well-known exporters of capital equipment. It is the area, however, in which we are a very strong competitor, and particularly in Mexico. So I think this is a good thing for us. I mean, we don't want to keep the Mexicans barefoot and poor. We want them to grow. The more they grow and the more prosperous they are, the more we believe they will buy from us.

Chairman GLENN. Well, I don't disagree, and yet the people who tout NAFTA the most are saying that we get our biggest advantage when the Mexican economy has grown to where the standard of living in Mexico somewhat approximates our own. Now, this was not a problem with Canada because the U.S.-Canadian border doesn't differentiate between standards of living, basically, between the two countries. They are basically the same.

What kinds of estimates are there on how long it takes for the Mexican economy and the standard of living there to reach a point where it approximates our own standard of living in this country? That is when the U.S. is supposed to reap some big benefits from what I read, but I don't know what generation that occurs in and whether there are estimates of how long that takes. Is that a 50-year program or 10? What are the estimates on that?

Mr. LONDON. I haven't seen any estimates on that. There are people now using longer numbers. The first number that I saw was an ESI number that showed a pretty quick turnaround. They import for a few years and then they start exporting. I think the most recent studies have reconsidered that argument and come to the conclusion which I came to a long time ago that this would continue for, you know, 20 years or 30 years or 40 years. It is a long-term phenomenon. Now, you are asking are there specific studies about how long to reach that point. I think the answer is no, but I can look into it.

Chairman GLENN. What protections are in this—and I guess this has been written about, but I don't believe I have seen any very clear definition of what protections there are that once we open the border, in effect, that we don't have a lot of foreign investment in plants and equipment in Mexico from, say, Japan or other South-

east Asia nations that then are free to sell across the border into this country.

Mr. LONDON. That was another argument that has been made for some time. I think the domestic content requirements in this agreement—and I am embarrassed that I don't know the specific numbers in some of these areas, but I don't, but the domestic content requirements in this treaty are very tight, tighter than they were in the Canadian Free Trade Agreement. So it will be very difficult—I would say impossible—for people to come in and use Mexico as a way around the American tariff or a way into the United States through the back door. I just don't think that is going to happen under this agreement.

Chairman GLENN. Senator Levin?

Senator LEVIN. Thank you, Mr. Chairman. I was interested in your answer to the Chairman's question about losers because it was pretty mushy. Textiles, or garments, as you put it, you say will continue to lose, but they would have lost anyway. So you are very reluctant to attribute even any increase to NAFTA.

Mr. LONDON. I am consistent.

Senator LEVIN. Yes, you are consistent, and I am going to be consistent, too. The Commerce Department, when it comes to exports, is real, real precise. We get books State by State. I can't tell you how many governors I have heard on the radio quoting from your book about exports to Mexico and how many jobs are export-related, using your equations.

I mean, we have got just this book from the Commerce Department, 127 pages of export State-by-State statistics, job creation. But when it comes to imports, we can't even get an estimate, not even an estimate from the Commerce Department of how many lost jobs. When it comes to winners, man, the Commerce Department will give you a list. They are real specific when it comes to winners under NAFTA. But when the Chairman says what are the losers, all we get is one example of something which was losing anyway. That is not playing straight.

I would respect the argument, if you made it, that the winners outnumber the losers. I don't agree with it, but I respect it, providing you give us both lists so we can check out what you are talking about. We can't check it out. We don't have a list of losers. We don't have a book on imports from Mexico. We have asked for it.

The Commerce Department gives us a big, glossy book, "U.S. Exports to Mexico: State-by-State Overview"—where are your publications on U.S. imports from Mexico? We have asked the Commerce Department to keep track of plants that have closed here and moved to Mexico so we can at least assess it in an honest way. We stopped keeping that list years ago, so what we have to rely on is private assessments of plants that have closed in the United States and moved to Mexico, page after page after page after page.

You know, I am intrigued when you say that U.S. plants won't be moving to Mexico. I don't know if you said that today, but I think you have and other Administration people have said that. Then we ask the corporations that are making that argument, OK, give us a pledge that you are not moving to Mexico. That is real simple. Just tell us you are not moving to Mexico. But you can't get that. You get the theoretical argument that NAFTA is not

going to give us incentives to move to Mexico. We are just going to sell more to Mexico. We are not going to close plants and move them to Mexico.

Then we say, put it in writing, give us a pledge; in fact, do it orally. Well, we tried that once, an effort to get U.S. companies to pledge not to move jobs to Mexico if the North American Free Trade Agreement passes, but corporate America is balking at the request. That is in a Wall Street Journal article on that.

The specifics are real terrific right down to the job, 17,643 per $1 billion when it comes to the exports; when it comes to NAFTA and job creation, State by State, page after page after page. You talk about losers, as the Chairman tried to get—and there will be—mush. We can't check it out. No one can check it out. When it comes to imports, zero. You don't deduct one job from that 200,000 figure for imports.

Now, a couple of other questions. We don't have a chart on this. I think you have given us this, though, in your testimony. You have pointed out that recently we have had a surplus with Mexico, a trade surplus. I think you attached it to your testimony, but anyway you are aware of it. You have said that we have a $5 billion trade surplus with Mexico.

In your testimony, what you have said is that the United States has a large trade surplus with Mexico that clearly indicates net job creation.

Mr. LONDON. Yes, that was in there.

Senator LEVIN. Now, we have had deficits with Mexico, too. We have had more deficits in the last 10 years than we have had surpluses. When we had deficits with Mexico, by your same logic, since surplus reflects net job creation, does a trade deficit reflect net job loss?

Mr. LONDON. I think the point I would make is this was—I could be wrong, but I don't think I am—unprecedented, the deficit. When Mexico was not growing and when Mexico was not able to attract foreign capital—when Mexico was not growing, we had a deficit with Mexico. Now, it seems to me that that was not an advantageous position. It sounds to me like there are people who want to limit capital investment in Mexico on the grounds that it will cost American jobs.

Senator LEVIN. Not limit it. We are just trying not to give incentives for people to move their plants down there.

Mr. LONDON. The incentives are coming out. NAFTA is going to improve this situation.

Senator LEVIN. It is not going to create incentives to move plants to Mexico?

Mr. LONDON. The NAFTA will make Mexico a more secure place.

Senator LEVIN. To invest?

Mr. LONDON. Yes, to invest, and the Mexicans are doing this because they believe, and I believe, that it will mean more investment in Mexico. But it will not, in this gross sense, take it away from the United States. There are a lot of reasons, if Mexico and the United States and Canada joined in a large area, why a lot of investment will come here. There will be more investment.

I made the point, Senator, about the Deer Park refinery. That is a Mexican investment in the United States which allows us to mod-

ernize a refinery in Texas. So there is going to be more investment in the United States.

Senator LEVIN. By Mexico?

Mr. LONDON. PMEX has a 50-percent joint venture.

Senator LEVIN. Do you really think there is going to be a serious expansion of Mexican investment in the United States?

Mr. LONDON. No. I think there is going to be a serious expansion of investment——

Senator LEVIN. In Mexico?

Mr. LONDON [continuing]. In both countries. I think there will be expansion of investment in both countries and I think it will be good for both countries. It has been good for Canada.

Senator LEVIN. Going back to the figures again, I will ask one more on this round. You have testified about an increase in exports to maquiladoras and said the dollars are actually kind of small in terms of increase. These figures are based on a GAO study. We don't keep data on our maquiladora trade; Mexico does, interestingly enough. They have used the data they get from Mexico as to how much of our exports go to the maquiladora are and how much goes to the rest of Mexico. Those are the figures GAO comes up with.

The percentage is pretty much the same. Back in 1987, U.S. maquiladora exports was 5.5 of 14.6 total U.S. exports to Mexico. It is roughly a third consistently. Do you have any reason to believe those figures are wrong, that a third of our exports, in other words, to Mexico go to maquiladoras and maquiladoras ship back to the United States 99 percent of their product? Do you have any reason to disagree?

Mr. LONDON. Well, the figures that I have, and I will be glad to give them to you——

Senator LEVIN. Are they different from that?

Mr. LONDON. A little bit different. I mean, you go through 1991. The exports go up to, what, 40.6 in 1992? The U.S. maquiladora exports—does that mean back into the United States?

Senator LEVIN. Well, it is the same thing because 99 percent come right back here.

Mr. LONDON. OK. Well, what we have is a figure for the components.

Senator LEVIN. I am talking about all products, not just components.

Mr. LONDON. Well, I mean do you want to include the Mexican value-added or whatever?

Senator LEVIN. At any rate, is the percentage different in 1992 than it was in 1991?

Mr. LONDON. Yes. It goes down to about 22 percent.

Senator LEVIN. OK. Now, you are saying that that is not a significant figure? That is included in the exports, isn't it?

Mr. LONDON. What it says is that about 22 percent of—I read the NAFTA math. You sent it over to us and we are looking at this hypothetical case. How often could it happen? We looked at the maquiladora case, which is obviously the prototype for all this, and we said, you know, what is happening here. What we see is that during periods when Mexico wasn't growing so fast, there was a

higher percentage—maybe 33 percent of this was that kind of trade that you have described. It has dropped down to 22 percent.

Senator LEVIN. But that 22 percent is included in our export numbers, isn't it?

Mr. LONDON. Yes.

Senator LEVIN. So that when we send parts and components down there and all they do is assemble them down there and then ship them right back here for consumption here, we treat those as exports, right?

Mr. LONDON. Absolutely.

Senator LEVIN. Thank you.

Chairman GLENN. Thank you. I am sure you have seen this article that was in Business Week this week, "An Anti-NAFTA Argument You Haven't Heard," by Aaron Bernstein. We started out this hearing trying to get information on the investment shifts. That is what the Mexicans want out of NAFTA—increase U.S. investment.

Mr. LONDON. Sure.

Chairman GLENN. That is what they hope for. We understand that. It wasn't among the factors that CRS looked at in its study, and they didn't find it in any of the econometric studies that had been done. Most of those studies left out the changed investment pattern.

Now, this little insert from last week's Business Week—and I will just read part of it—puts in a nutshell my concern about investment, and I wish somebody could convince me that this is not true. I would like to be for NAFTA, I truly would, but its impact on investment, it seems to me, is something that has been overlooked.

Let me just read you some of the article. The author talks about how free trade is good trade, everybody says out of business schools, and so on. "But the argument overlooks the treaty's biggest imbalance, which won't be on trade but on investment, mainly by U.S. companies in Mexico. Most studies rely on the 19th century theory of free trade which assumes capital doesn't cross borders. Result: The studies miss the drain of U.S. investment dollars—which began several years ago in anticipation of the pact's becoming law.

"Some quick arithmetic suggests that investment lost under NAFTA could outweigh potential gains from increased trade. 'Most economic models of NAFTA don't look at capital movements,' says Ed Leamer, a trade economist at the University of California at Los Angeles. 'And it might give a different answer as to whether NAFTA is good or bad for the U.S. work force if they did.'

"Indeed, of 19 NAFTA forecasts reviewed by CBO, just 5 looked at the issue, and 4 of these assumed—bizarrely—that any investment surge in Mexico would come from somewhere other than the U.S. The only study delving into the issue, by Robert McCleery, an American economist at Kobe University in Japan, predicted that NAFTA would displace about $2.5 billion of investment from the U.S. to Mexico annually.

"What does that mean for U.S. jobs? McCleery doesn't ask because he assumes the U.S. economy will fill in lost jobs with new ones. But Georgia State University economist Donald Ratajczak figures—and this gets to Senator Levin's point, I think—that $1 bil-

lion of U.S. investment generates about 30,000 jobs. Assuming a $2.5 billion annual capital outflow, that would mean 375,000 potential new jobs lost over 5 years—more than wiping out the 170,000 gain that Gary Clyde Hufbauer and Jeffrey Schott of the Institute for International Economics in Washington predict will occur in 5 years if NAFTA passes. Bruce G. Arnold, the economist who wrote the CBO paper, acknowledges that investment outflows could wipe out potential job gains from NAFTA, but he admits that 'no one has looked at it much.'

"The pro-NAFTA argument rests on some shaky assumptions about exports, too. Hufbauer and Schott, like most others, assume that higher exports are a net increase for the U.S. economy. But the recent export surge to Mexico wasn't fueled by Mexicans on a spending spree. Some 37 percent of it went to maquiladoras, which ship most of their output right back to the U.S., according to a recent GAO study. That's not a net boost to U.S. gross domestic product—it's production lost to another country.

"Moreover, the CBO found that a further third of U.S. exports to Mexico consisted of capital goods. If much of this money comes from U.S. companies closing plants at home and setting up new ones in Mexico, these exports aren't a net gain for the U.S. either.

"Let's take an example: Say General Motors Corporation shuts an Ohio plant that had cost $1 billion to build and that employs 30,000 people. Then, it builds a factory in Mexico, buying $1 billion worth of equipment from U.S. makers. Hufbauer and Schott figure the economy will be swelled by $1 billion in new exports—enough, they estimate, to create 19,600 new jobs for American workers. But the investment and 30,000 jobs lost in Ohio are left out of the equation."

Then they close with a paragraph here, "Trade theory is convincing," but what I just read is the bulk of this article and I think it summarizes very well and very succinctly Senator Levin's concerns about making sure that what we are talking about is net figures and that the net total takes winners and losers, jobs losses and gains, and my concerns about investment, which is where the jobs of the future are going to come from. The changing investment patterns which were not addressed in most of the earlier econometric studies have to be factored into this equation. Otherwise, we are not playing with all the cards here, it seems to me.

Now, I don't know whether you want to comment on the Business Week piece. I read that right off of this article, and I think Mr. Bernstein puts my concerns very much into focus. Now, the investment patterns are going to play a vital role. I don't have any doubt about that. Yet, they seem to be left out of the Administration's estimates and were left out of all of the earlier economic studies. This has been my major concern all the way through.

As I said, I would like to be for NAFTA, but if we are not going to see a real change and a real net benefit to our society for our own people who are hunting for jobs, too, until the Mexican economy comes up to where its standard of living equals our own, that is a long dry spell to ask people to wait. That is basically my concern and I would appreciate any comment you have on it.

Mr. LONDON. Look, I understand and the Administration understands everybody's concern with this. These are difficult issues and

we are trying to project future trends and we are not very good at it. Nobody is very good at it. I tried to put together here for this testimony a table, Table 3, page 19, which puts some numbers, at least, to the investment.

There have been some studies that have looked at the investment. Maybe they don't it adequately. You know, these models—and I am not a modeler, but these models are constrained by assumptions. We all know that. It is not a perfect science, but there have been people who look at the investment.

I think you have to look at the sort of history of this and what is actually going on. The investment in Mexico is likely to be, as I described it, relatively small compared to total investment in the United States, and there are a lot of factors that just make sense that tell you that when this market gets bigger there are going to be a lot of investments in the United States that take advantage of it.

When we have an opportunity to export to Mexico as we have had in recent years—when, you know, the exports that Caterpillar sends to Mexico go up by $200 million, you just have to assume that some additional investments which wouldn't otherwise be made in the United States are being made.

Chairman GLENN. But how long does it take to get bigger? You said all this occurs when the Mexican economy gets bigger. What time base are we talking about here?

Mr. LONDON. What I mean by this—the Mexican economy is getting bigger now. The process of getting bigger is what is drawing into Mexico imports from the United States. They want to modernize their roads, they want to modernize their refineries. This process of growth is the one that they want to finance by borrowing from us and importing our equipment, and I think that is good for the United States.

I mean, we are not talking about, again, something that deprives an American of a job when we talk about equipment for electric generation in Mexico. I mean, that is not a substitute for some sort of job in the United States. I mean, this is a net gain for the United States, not gross. So these things are big pluses for us.

What I think is that, first of all, the investment in Mexico is relatively small, the American foreign investment, and there are two tables in here that describe that. Even if it goes up and doubles, which would be very big for the Mexicans and a great success for them, it is still going to be small. A lot of it is going to be spent in the United States, and that is good, and a lot of things are going to engender additional investment in the United States. It is not going to be I either build a plant in the United States or I build one in Mexico. It is going to be I am going to build one in both, or different kinds of plants in both, because the whole area is growing. That is the real promise of this trade agreement.

Chairman GLENN. I don't have anything else. Senator Levin?

Senator LEVIN [presiding]. OK, thanks. Thank you.

First, I want to just ask you about the import/export issue again because I am intrigued by the willingness of the Administration to be so specific on half of it and so unwilling to acknowledge anything on the other half. I, by the way, do acknowledge there are going to be winners and losers under NAFTA. I am willing to ac-

knowledge there are going to be increased exports that are going to create jobs.

What I think what the Administration has failed to do is to be willing to acknowledge there are going to be increased job losses to imports and where they are going to take place. The Labor Department, interestingly enough, said there is going to have to be some retraining, and they figured it would cover something like 20,000 people a year, I think; 20,000 people a year are going to have to be retrained. Do you know where they got that number from?

Mr. LONDON. No. I am sorry. You know, again, it is a little too stark a statement, it seems to me. I think we have always——

Senator LEVIN. There is nothing starker than that 17,643 jobs per $1 billion. You talk about stark statements, let me tell you.

Mr. LONDON. Well, we rounded it off to 200,000. Again, I think there has been a lot of rounding going on and I think that is fine, but I think we have always acknowledged that, again, in a sort of rounded sense, that there would be people who would require retraining. There will be adjustment problems and we are going to try to deal with them.

Senator LEVIN. How do you estimate how many people here will lose their jobs so that they have to be retrained? Someone has got to estimate it. We have got to put money in for retraining, or are we just going to say, well, gee, I don't know, there may be some, there may not? I mean, you know there is going to be, everyone knows there is going to be. Someone has got to estimate it because we have got to put some retraining dollars in. How are we going to estimate the number of people that have to be retrained as a result of NAFTA unless someone makes an estimate as to how many people will lose their jobs as a result of added imports?

Mr. LONDON. I don't know how these retraining programs have been managed in the past. I am sorry.

Senator LEVIN. OK. Let's go back to your equipment. I agree with you. When you send electric generation equipment down to Mexico to generate electricity, you have got a job creator here. I am clear on that one. When you get to the question of how about new equipment to assemble an automobile and an automobile factory closes here and moves down there, I would hope you would then agree that that is not totally a job creator for the United States. It is a much more complicated equation.

If a factory closes here, buys new equipment—I am saying "if" in my hypothetical—if a factory closes here, buys new equipment and opens in Mexico, under that hypothetical that equipment that was built for that new factory is a much more complicated equation when it comes to jobs.

Mr. LONDON. It is complicated, but I am sure you would agree it is a lot better if it were done in Mexico than Korea or some place.

Senator LEVIN. I agree. I don't know too many American car factories that have moved to Korea. I can give you lists of American car factories in Mexico. I can't give you ones that have moved to Korea to build Buicks and then ship them back here.

Mr. LONDON. But they bring back in name plates or whatever.

Senator LEVIN. Oh, yes, but they haven't closed the factory and opened it up there.

Mr. LONDON. But it has the same effect, right?

Senator LEVIN. It's very different, because here we have got factories closing and moving to Mexico. They have been tracked. They are called runaway plants, page after page of them where you can actually track it. Harnesses made in Osseo, Michigan, are now being made in Mexico. The same company closes the factory here and opens a factory in Mexico. The Commerce Department surely ought to care enough—frankly, to keep track of plant closings in the United States and American companies that open plants in Mexico so you can make these kinds of assessments on jobs.

Let me get back to your thing, new equipment. If it is electrical generation, it is a job creator. If it is going to assemble cars that previously were assembled here, it is must more ambiguous. The machinery is a job creator, but the loss of those jobs may or may not, in your estimation, be a job loss.

Now, how about the used equipment? How about a company that closes its factory here, boxes up existing equipment and ships the existing equipment to Mexico? That is an export, right, the used equipment?

Mr. LONDON. Right, I think so.

Senator LEVIN. That hasn't created any jobs here, has it?

Mr. LONDON. You know, you used the word "ambiguous." What is its alternative is always the question.

Senator LEVIN. My hypothetical I just gave you——

Mr. LONDON. It is an export, as you said.

Senator LEVIN. It is an export.

Mr. LONDON. I read in one of these documents we don't make any differentiation between used and new, but we don't know, of course, what its alternative was.

Senator LEVIN. And that is true with exports generally. You don't know what alternatives are. You don't know whether we might have been able to export that $40 billion to some other country if we didn't to Mexico. You don't know that. It may have been that, because it is closer, it was a slightly cheaper, better deal for the person and they could have spent a little more freight and shipped it somewhere else. You don't know all the factors. You just count every damn export going across a border as an export and a job creator. There are all kinds of complications in that. You have acknowledged that in your testimony, I think. Exports are different.

Let me give you the other one. I will use my factory here now that I have used before. This is a factory in the middle of America. I don't know where it is today. We move it around. It looks like it is somewhere around Missouri, let's say. You have got an assembly plant. It gets parts and components from all over the United States. That is what those blue lines are.

Now, assuming you can track that factory, it closes and moves to Mexico. So now we have got a factory moving to Mexico, but it continues to get parts and components, let's assume in my hypothetical, from the same places that it got them before. When those parts and components cross the border to Mexico, they now are exports and they are now counted as job creators.

Would you not agree that the people who were assembling the cars in that plant previously in Missouri, 1,000 of them, do not view that as a job-creating function?

Mr. LONDON. Yes.

Senator LEVIN. They are out of work. Now, your argument is, but you don't know, Senator Levin, that that plant might not have closed and then something might have been produced by that company in Singapore and brought in. There are a lot of things we don't know. That is why I am giving you a hypothetical.

Under my hypothetical, if that plant closes, moves to Mexico and continues to get the parts and components from those American parts companies, when those components and parts cross the border, that is an export. Is that not true?

Mr. LONDON. Right.

Senator LEVIN. That is counted as an export the same as any other export?

Mr. LONDON. Absolutely. We tried to set parameters on that. That is what the testimony does, as I know you understand.

Senator LEVIN. You don't set limits on that.

Mr. LONDON. We set parameters on it. We tried to say that if you look at the trade flows which we do have and which you had up there before, slightly different than the ones I had, but when we looked at those you could see that that in 1992 was, at most, the parameters, the outside. That could have been 22 percent of U.S. exports.

Senator LEVIN. That is good.

Mr. LONDON. It could have been.

Senator LEVIN. That is good. I am willing to accept that. At least it is an effort to reach a number, but that 22 percent is not deducted from your export figure to Mexico, right?

Mr. LONDON. No.

Senator LEVIN. Pardon?

Mr. LONDON. No.

Senator LEVIN. It is not deducted?

Mr. LONDON. No.

Senator LEVIN. In other words, you are agreeing that, yes, it is not deducted?

Mr. LONDON. Yes. It is an export to Mexico.

Senator LEVIN. And it is not deducted in your figures. It is treated the same as any other export?

Mr. LONDON. Right.

Senator LEVIN. One other thing. Do you include in your exports not just those parts and components that previously were assembled in the United States, but do you also include in your exports capital equipment to assemble products?

Mr. LONDON. That is a capital export, yes.

Senator LEVIN. Now, one other question. These are real cases, by the way. People in Michigan were making a product. The plant closes and moves to Mexico. These folks boxed up the equipment that they previously were working on and shipped that equipment to Mexico. That equipment is an export, right?

Mr. LONDON. Yes.

Senator LEVIN. These folks then went down to Mexico to train Mexican workers on the machinery that they previously worked on. Is that an export of services, their training of the Mexican workers?

Mr. LONDON. You are pushing the envelope on my understanding. I presume it is an export of services.

Senator LEVIN. Just think about it not in some theoretical way. Think about it in a sort of common-sensical way of how we define exports in this country. We have just closed an assembly plant in Michigan, boxed the equipment, thereby creating an export, and under your equation, therefore, creating jobs because it crossed the border. The people who used to work on that equipment are now out of work and spend a couple of weeks down in Mexico training those Mexican workers on the equipment they used to work on. That is viewed as an export of services, which it is, and therefore it gets translated into job creation because all exports are treated equal under Commerce Department and NAFTA math.

That series of events is all viewed as job-creating under Commerce Department math when, in fact, under my hypothetical, you have got all the people who worked in that assembly plant out of work, all the equipment moved to Mexico. You have got to do better by us, by the American people. You have to track plant movements and treat exports a little more carefully as to what is a real export.

If it is just going to be assembled in Mexico and come back here for consumption, my gosh, don't treat that export to the maquiladora area as the same thing as you would something that is going go be consumed in Mexico. By the way, the Mexican government doesn't. For your knowledge, they treat that very differently. And count imports. Do the best job you can. Give an estimate on imports and deduct the losses. When you do that, at that point at least you have got an intellectually honest figure. Until you do that, it seems to me you have got a gross distortion and we are entitled to better.

I have kept you here a long time. Do you want to add something before we wind up?

Mr. LONDON. No.

Senator LEVIN. Thank you for your presence. I know it is not the easiest thing in the world. You don't have too many Senators up here defending NAFTA math. You have two or three of us who are very disturbed by the way in which figures have been used by the Administration, and so it is not particularly easy for you, but we appreciate your coming by and your good nature. Thank you for your testimony.

Mr. LONDON. Thank you very much.

Senator LEVIN. The Committee stands adjourned.

[Whereupon, at 3:57 p.m., the Committee was adjourned.]

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